



India's Regulatory landscape—Status quo and Outlook

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Shri. Biswa Ketan Das, CEO, IIBF, Shri. Sunil Mehta, CEO, IBA, MDs, CEOs and Senior Officials of banks, Officials from GIZ, UNEP FI, other officials are who going to be part of today's panel discussions, ladies and gentlemen.

Firstly, I would like to thank the organizers, viz., Indian Institute of Banking Finance, GIZ and UNEP FI for having invited me to talk on "Indian regulatory landscape – status quo and outlook". The topic of the conclave "Enabling the climate transition in India" is very appropriately given that impact arising from climate change is being felt now by common man and is visible across the world and India. As per the latest report of European Commission funded Copernicus Climate Change Service (CCCS), the world went through the warmest May in 2024 with the global average surface temperature being 0.65°C above the 1991-2020 average. This made May 2024 the twelfth consecutive month with the global average temperature hitting a record value for the corresponding month and it was 0.19°C above the previous high set in May 2020. Further, the global average temperature for May 2024 was 1.52°C above the 1850-1900 pre-industrial average marking the 11th consecutive month (since July 2023) at or above 1.5°C. Thus, the past 12 months have broken the records like never before caused, primarily by Green House Gas (GHG) emissions and an added boost from El Nino event in Asia Pacific. If we choose to

continue to add GHG to atmosphere, then 2023-24 will soon like a cool year in a similar way to how 2015-16 appears now. India has also gone through tough time due to higher global temperatures over past 12 months attributed to El Nino which emerged in June 2023 resulting in deficient south-west and north-east monsoons. This has had its impact on agricultural production. Delhi reported a high of 52.3°C on May 29, 2024 and Bangalore a city which used to pride of the pleasant weather throughout the year reported about water shortage. Further, closer home as per news reports some of the staff on election duty on last day of polling in UP and Bihar were reported to have succumbed to heat. All these is sufficient to set the alarm bells ringing and each one of us needs to pull up our socks and contribute our bit to this cause, else coming generations will curse us for not doing enough.

The learned audience seating here is aware of the aforesaid facts but what is that we as banks and Financial Institutions (FIs) and regulator can do to further this cause. Each one of us has a role to play in mitigating impact arising from climate change. And from sovereign perspective as a part of the COP26 statement our Hon'ble Prime Minister had committed that non-fossil energy capacity would be 500 GW by 2030, 50 per cent of energy requirements would be met from Renewable Energy (RE), projected carbon emissions to be reduced by 1 billion tonnes till 2030,

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reduce carbon intensity of economy by more than 45 per cent by 2030 and achieve net zero by 2070¹.

From a regulatory lens, we at Reserve Bank of India have been doing our wee bit. There could be questions as to whether that is adequate or not a point of debate. Having said so if we look around the world in terms of actions of regulators (meaning the central banks), we at Reserve Bank of India have taken actions at a slow and steady pace. Given that climate risk (talking from perspective of the risk to banks and FIs) is an evolving subject and there is a yet to be a consensus among the international standard setting bodies or international bodies as to whether this is a risk itself or embedded in other risks (viz. credit risk, market risk etc.). To put things in perspective, we are not trying to run away from things and say that as central bank, we have no role in area of climate risk but globally also there is almost a consensus in terms of actions that central banks can take in area of climate risk. To quote Federal Reserve Chair Jerome Powell² from the statement released when Federal Reserve came out with principles for climate related risk management for large FIs – “The Fed is not and will not be a climate policy maker. Decision about policies to address climate change must be made by elected branches of Government. Over time we must be vigilant to avoid crossing the blurring line.” Likewise, Christine Lagarde the President of European Central Bank (ECB)³ had in her speech “It is Governments and not central banks who are primarily responsible for facilitating an orderly transition and who controls the main required tools. Nonetheless there are several areas where central banks can contribute”.

Globally, the regulatory landscape in area of climate risk has evolved over a period of time starting from Basel Committee on Banking Supervision’s work, viz. climate related financial risks – measurement methodologies⁴, climate related risk drivers and their

transmission channels⁵ both in April 2021, a must read documents for the learned audience sitting here, as it has built a narrative of what climate risk means for banks and FIs in terms of their transmission channels and measurement methodologies. The latest work done by Basel Committee on Banking Supervision (BCBS) is principles for effective management and supervision of climate-related financial risks⁶ followed by its consultative document on disclosure of climate related financial risks⁷ released in November 2021 and November 2023 respectively. There are many other international bodies who have been working on area of climate risk to name a few Financial Stability Board (FSB), Network for Greening the Financial System (NGFS) and International Platform on Sustainable Finance (IPSF). I would not like to delve much into detail about it. Suffice to say that each of these entities have been doing niche work in area of climate risk like FSB looking climate risk from macro perspective, NGFS has been doing work on scenario analysis and IPSF has been doing work on taxonomy.

This gives you a flavor of work being done by various international standard setting bodies or international bodies. The work happening in various jurisdictions of world mirrors the work that has been done by these bodies but of course the pace of adoption has varied. Ultimately, it boils down to the importance being assigned to this topic by various central banks around the world meaning that for some central banks this is an important aspect while for others it may be like central bank would not be the leaders in area of climate risk and it is better dealt by sovereigns.

Having given you a sense of work done by various international standard setting bodies or international bodies, I would now like to highlight the approach adopted by the Reserve Bank of India. For the uninitiated or those who are new to this subject as has been the case with various other jurisdictions

¹National Statement by Prime Minister Shri Narendra Modi at COP26 Summit in Glasgow (mea.gov.in)

²Federal Reserve Board - Statement by Chair Jerome H. Powell on Principles for Climate-Related Financial Risk Management for Large Financial Institutions

³Christine Lagarde : Climate change and central banks - analysing, advising and acting (bis.org)

⁴Climate-related financial risks - measurement methodologies (bis.org)

⁵Climate related risk drivers and their transmission channels (bis.org)

⁶Principles for the effective management and supervision of climate-related financial risks (bis.org)

⁷Disclosure of climate-related financial risks (bis.org)

we also started with a survey covering 34 banks on area of climate risk and sustainable finance which was followed by release of a Discussion Paper on climate risk and sustainable finance which touched upon aspects relating to governance, strategy, risk management and metrics and settings. Basis the feedback received on the Discussion Paper, as a part of monetary policy announcement made by the Governor of RBI in February 2023, there were three announcements (a) green deposit framework (b) disclosure framework and (c) guidance note on scenario analysis. Till date, we have issued guidelines on green deposit in February 2023 and draft guidelines on disclosure framework in February 2024. We have received a good amount of feedback on the disclosure framework and the same is under examination basis which we intend to come out with final guidelines on disclosure framework. The guidance note on scenario analysis is in advanced stages and we also intend to come out with same shortly. Incidentally, the RBI did a pilot scenario analysis exercise which has been elaborated in detail in the RBI bulletin of January 2024⁸.

The Government of India has also been taking various initiatives from time to time be it Production Linked Incentive for Advanced Chemistry Cell⁹, FAME subsidy and now the Electric Mobility Promotion Scheme¹⁰, launch of Indian Carbon Markets by Bureau of Energy Efficiency¹¹, launch of National Green Hydrogen Mission¹², etc.

There are certain missing pieces in the work we as a country have done and we need to work on,

one is about having a taxonomy though we have a limited purpose taxonomy as part of Government of India's Sovereign Green Bond framework, this from a perspective of banks and FIs climate risk boils down to the implications it would have on their financials, data which is another important piece in the entire exercise and lastly capacity building.

There are other aspects which are equally important for country like ours, viz. transition finance, implications arising from impending Cross-border Adjustment Mechanism (CBAM) implementation by EU, blended finance and so on and so forth. At Reserve Bank of India, we are also cognizant of the fact that looming threat arising from climate risk and we have been taking measured steps in line with what other jurisdictions as well as standard setting bodies are doing but factoring in the local conditions. Thus, we may appear to be slow, but we are confident of navigating the journey by taking more steps in the days, months and years to come.

To conclude, I would say that it is indeed gratifying to note that today's enclave would be deliberating on three important issues, viz. climate risk to sustainability integration in FIs, measuring and reducing emissions – move towards carbon neutrality and data, disclosures and reporting. I wish the conclave all success and fruitful deliberations.

Thank you once again to organisers for inviting me opportunity to share my views on this important subject.



⁸Reserve Bank of India - RBI Bulletin

⁹pib.gov.in/PressReleaseframePage.aspx?PRID=2014366

¹⁰pib.gov.in/PressReleaseframePage.aspx?PRID=2014366

¹¹Press Information Bureau (pib.gov.in)

¹²National Green Hydrogen Mission | Ministry of New and Renewable Energy | India (mnre.gov.in)